

Meeting Date: January 29, 2002

Council Report # _____

Strategic Leadership Team Contact: ___ Rachel Flynn

Report Writer: Keith Wright

Subject: BluffWalk Center Project Amendment

Purpose of Action:

- To consider citizen input regarding amendments to the HUD Section 108 loan guarantee for the BluffWalk Project.

Requested Action: Conduct a public hearing

Prior Action: October 10, 2000 – City Council Approved a HUD Section 108 guarantee loan application for the BluffWalk Project
January 29, 2002 – City Council Work Session

Attachments: None

Resolution:

Be it resolved that the City Manager is hereby authorized to execute all necessary and required documents regarding the BluffWalk Project.

Adopted:

Certified:

Clerk of Council

Other Information:

On October 10, 2000, City Council approved a Housing and Urban Development (HUD) Section 108 loan guarantee application regarding the BluffWalk Center Project. Since the original application was submitted, the project has changed in scope and is considered by HUD a project amendment that requires a separate public hearing. The cost of the project increased from its original estimate of \$8.5 million and the hotel has been downsized from a 54-room hotel to a 29- room hotel to make available additional lease space for office use. The two restaurants and conference center will remain and the time-frame of the different components of the project have changed as follows:

Phase I – Opening of the restaurant and office space on October 1, 2002

Phase II – Opening of the hotel and conference center on January 1, 2003

Phase III – Opening of the brewpub and biergarten on April 1, 2003

The application is currently under considered by HUD's review panel for approval. Contingent upon approval from the review panel for the project and City Council regarding the project amendment, the City will enter into an agreement with Riverfront Development, LLC for the BluffWalk Project. This agreement will ensure that all job creation criteria and all federal and local requirements will be met.

THE DEPARTMENT of COMMUNITY PLANNING & DEVELOPMENT

City Hall, Lynchburg, VA 24504

804.847.1671

TO: City Council
FROM: Keith A. Wright
DATE: January 25, 2002
SUBJECT: BluffWalk Project Update

On October 10, 2000, City Council approved a Housing and Urban Development (I-IUD) Section 108 loan guarantee application regarding the **BluffWalk** Center Project. Since the original application was submitted, the project has changed in scope and is considered by HUD to be a project amendment by HUD and will require a separate public hearing scheduled for January 29th. The project is estimated to cost \$10.2 million, approximately \$1.7 million more than original estimates. Please see the attached spreadsheet which details the sources and uses of funds for the project. The hotel has been downsized from a **54-room** hotel to a **29-** room hotel to make available additional lease space for **office** use. The two restaurants and conference center will remain and the time-frame of the different components of the project have changed as follows:

Phase I – Opening of the restaurant and **office** space on October 1, 2002

Phase II – Opening of the hotel and conference center on January 1, 2003

Phase III – Opening of the **brewpub** and biergarten on April 1, 2003

As a part of the public hearing, the City will also be requesting approval to authorize a \$3.2 million revenue backed loan to **BluffWalk** and will have to issue a note regarding this debt. The City's guarantee is pledged by future Community Development Block Grant funds and collateral based on the assessed value of the **BluffWalk** property. Based on research and analysis of an independent appraisal, the proposed mixed-use project will have a "prospective going concern market value Upon Stabilization" on or about January 1, 2005, the effective date of the appraisal, of \$7.1 million.

The application is currently under consideration by HUD's review panel for approval. Contingent upon approval from the review panel for the project and City Council regarding the project amendment, the City will enter into an agreement with Riverfront Development, LLC for the **BluffWalk** Project. This agreement will ensure that all job creation criteria and all federal and local requirements will be met.

Attached is a copy of a facsimile from Mr. Hal Craddock for your review.

This matter will be discussed at the January 29th worksession. If you have any questions prior to the meeting, please contact me.

BluffWalk Center Project

Projected Sources and Uses of Funds: First Quarter 02-First Quarter 03

Private Investors	\$2,475,000
HUD ED1 Grant	800,000
HUD Section 108 porceeds	3,200,000
Conventional bank loan proceeds	<u>3,777,304</u>
Total Construction Sources	<u><u>\$10,252,304</u></u>
Tax Credit Sale Proceeds 2003	\$3,601,241
Distributions of Historical Tax Credits 2003	
Repay conventional loan	(2,229,397)
Member Distributions	<u>(1,237,500)</u>
Balance	<u><u>\$134,344</u></u>

Source: Compilation report from Brockman, Drinkhard & Pennington, Certified Public Accountants dated December 4, 2001

Long-term Financing	
Hud Section 108	\$3,200,000
Commercial Loan	
Original	\$3,777,304
Repayment from Historical Tax Credits	<u>(2,229,397)</u>
	<u>\$1,547,907</u>
Total	<u><u>\$4,747,907</u></u>

BLUFFWALK CENTER

RIVERFRONT DEVELOPMENT LLC
1312 28 JEFFERSON STREET, LYNCHBURG, VIRGINIA 24504

To: Members of City Council, Lynchburg, Va.

From: Hal Craddock, President of Riverfront Development LLC

Re: Recent Finance and Planning Committee Review of the RDLLC BluffWalk Center Project

Date: January 10, 2002

Dear Council Members,

It has been over three years since then City Manager Chuck Church requested that the Council approve the City's **application** to **HUD** for both an Economic Development Initiatives grant (**EDI**) of \$800,000 and a Section 108 loan (which utilizes the City's future block grant funds as ultimate collateral) of \$3.2 million. There is no question that this important decision played a pivotal **role** in **allowing** our **development** to **move** forward and **attract** private investment

Since you (Council) **agreed** to this source of funding, **we** have attracted five investors at **\$150,000 and 18 investors at \$75,000**, for a total of **\$2.1 million**. **We are allowed to sell** another six membership interests, which should generate at least another **\$450,000**. We have also **identified** over **\$4 million** in historic and enterprise zone tax credits and have institutions who want to buy those credits for \$3.6 million. Finally, we are working with **BB&T** on the additional financing we **need** during construction: \$3.7 million and, on the longer-term financing **after** the tax credits **are** sold, \$1.5 million over **10 years**. We hope **BB&T** will have a package completed **by the** end of February, **and** we can **begin** construction.

I don't believe any of this would have taken place without Council's willingness to support the catalyst of the EDI grant and 108 loan.

Since that vote **three** years ago, the City's **and** Council's obligation has not changed: \$3.2 million **loan** over **19** years, with **the** principal being backed by block grant **funds**. **I** have had Warren Butler, our consultant who **helped** write the legislation 25 years ago, at every meeting with **Council** or the Finance **Committee** to answer your questions. As a **requirement** of the **HUD** program, **we paid** for an **independent MAI** appraisal, which valued the property at **\$6.7 million** at the **completion** of **construction** and **\$4.1 million** once the components are in operation. That means **we will** have **\$7.1 million** in equity covering **\$4.7 million** in total debt (**\$1.5 million** with **BB&T** and **\$3.2 million** with the City). Because we have now separated all the components of the facility, **30-room luxury hotel, lunch/dinner brewpub, conference/entertainment center, fine dining dinner-only restaurant, and 9,000 sq. ft. of professional office; space into distinct, separate businesses, the failure of one component will not jeopardize the success of the others. When we** started this project, all components were interdependent.

Since this Project began, Craddock-Cunningham Architectural Partners has spent **over** 4,000 hours in design and development time without any guarantee of compensation; the **partners** in **Riverfront** Development have spent over **\$300,000** of **our** own money without guarantee of compensation; and the 23 local investors have put up 10% of their investment (\$210,000) in a no-interest escrow **fund**, and they are **guaranteeing** to provide us with the remaining **90%**, interest free, during **construction**. **We** have always promised our investors to give back 50% of their membership share equity once the historic tax credits are sold. This will leave approximately \$1.5 million in **local** investor equity in place for the long **term**.

Another critical component of our project that has grown is the historic tax credits. Thanks to our attorney, **Dan Gecker** of **Kutak** Rock in Richmond, who helped develop the **state** credit legislation, **we** have identified a much larger share of the project that qualifies for historic tax credits. For example, before meeting Dan, **I** had always thought that my "contribution" to the project would **be** by holding architectural, engineering, and **development** fees to a minimum. **Dan** pointed out that the state and **federal** tax credit laws allow a 12% architectural/engineering fee and a 20% developer's **fee** on projects similar to ours, which will generate over \$1 million in additional cash for the project. Since our **firm** will need only **about** a third of these fees to complete the project, the **other** two thirds remains "un-billed" and can be **additional** cash for the project. Certainly, these changes have "grown" the project; but they have also allowed us to **be** less dependent on **raising local** investment, and also to move **forward** with less debt and more equity to insure our success.

Even though **restaurants**, hotels, and **entertainment** complexes are somewhat risky, these types of projects **are** usually the initial catalyst for the comeback of most **downtowns** . . . the **Main Street Eatery** and the Tobacco Company in Richmond are good examples. This project is a sound **investment** for the City, a sound investment for downtown, and a sound investment for the **Riverfront**. We should all hope that it will **be a** sound **investment** for the investors and for Riverfront Development LLC, **because** we **will** continue to invest and attract investment in downtown and, hopefully, expand the cultural and economic richness of our City. This will not **happen** without a committed City Council that is willing to take some **responsible** risks.

As you **approach** the final **approval** of our Section 108 loan, you **need** to **ask** yourself, "If not this **project**, what private investment will spur growth downtown?" . . . "If not this **financial** structure **with** local, state, federal, and private finance sources blended **carefully** together, then what **other structure can** and will work better?" The time is now; the risk is both reasonable **and** manageable; and the City is ready for **BluffWalk**. I urge you to give it your full endorsement at the public **hearing** on January 29.

Sincerely,



Hal C. Craddock, AIA

/pw